

Small-Biz: Planning to Export to the EU?

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Specialized agriculture niche products can probably succeed in trying to enter European markets according to experts interviewed by The FINANCIAL. However there are several obstacles and barriers companies might face while exporting. The extent of problems consequently varies according to the size and the resources of the entity. The smaller the company the more difficult to export and extend operations. The majority of problems encountered while trying to export are to do with the quality and price of the product.

"I believe that organic bio products are quite interesting for European markets. Georgian greens have already entered the EU market with success. We are not referring to mass provision of vegetables, rather finding niche markets for certain Georgian agriculture products," said Ambassador Konstantin Zaldastanishvili, Secretary General of EUGBC, the Europe Georgia Business Council.

"Specialized agricultural niche products as well as textiles might be successful in exporting," declared Patrick Jung, Project Manager at DWVG, the German Business Association in Georgia.

However in Georgia, a country of agriculture, the majority of export consists of ferroalloys, scraps of black metal, gold, nitric fertilization, copper ore and concentrated products, as well as alcoholic drinks and different types of nuts, according to the Georgian National Investment Agency.

"100% of produced ferroalloys are exported as the USA cancelled all restrictions on this product in 2001. Moreover, if there was more production potential for this product, it would be assimilated by the international market too," said Irakli Moistsraphishvili, Export Promotion Chief Coordinator at the Georgian National Investment Agency.

"There is large competition in citrus fruits in the EU market. However, if you provide good quality citrus fruits balanced by good prices you have the potential to export to the EU," believes Zaldastanishvili, EUGBC.

"If you want to enter the market you should defeat others, and this will be by a good combination of price and quality. If you can't manage that you lose potential even in your local market and any imported product automatically becomes better than yours. That's because it is good trade liberalization and competition that awakes everyone, locals as well as importers," declared Zaldastanishvili.

"We are not thinking of exporting Marneuli production at present as we are more focused on satisfying local market demand. There has been interest from different countries, mainly for sauces, such as Ajika, Tkemali, pickled cucumbers, tomato sauce, jam, and Georgian tea. Development of the agriculture sector and a good harvest is giving us hope to fully satisfy demand in Georgia as well as in other countries of the world," said David Sisvadze, Sales Manager at Marneuli, one of the biggest food producers in the country.



MARKETING

"Europe has quite a difficult and regulated market. For a product to enter the EU market it should satisfy many terms and conditions, and should overcome both tariff and non-tariff barriers," declared Zaldastanishvili.

The tariff barrier includes different types of taxes and payments, while the non-tariff barrier consists of standards - sanitary, phytosanitary, and food safety.

"To overcome the tariff barrier is much easier, this afterwards is included in the price and does not cause any technical problems. However technical problems are faced in overcoming non-tariff barriers. For a product to enter the European market it should have documentation which provides full information on the standards and quality of the product. Without specific documentation and certificates the product is not allowed on to the European market," Zaldastanishvili said.

"The preferential trade regime is not the only solution to export development, this is a supporting factor. However, if the non-tariff barrier is not overcome and the product has not the subsequent quality and documentation the company will not be able to use the privilege. Non-tariff barriers become an obstacle to the tariff barrier," said Zaldastanishvili.

"The main problem is knowledge of how to overcome non-tariff barriers and consequently there arise other problems concerned with creating competitive products. It is quite difficult especially for SMEs to get to know EU markets and the regulations. One of the ways to support exporters is to help them deepen their knowledge and inform them on the specifics characterized by the EU markets," Zaldastanishvili added.

"Each country has different mechanisms for market protection. One of which is the guarantee of product safety, for protecting customers from using low quality products, even if they are cheap," said Moistsraphishvili.

According to Moistsraphishvili, in the case of vegetable products all phytosanitary norms should be followed, if the case is concerning animal origin products, the provider country, in our case Georgia, should have an investigation mechanism of product origin, which does not exist in Georgia.

"The Ministry of Agriculture, national management unit of food safety, plant protection and veterinary, is actively work-

ing on this direction to adopt an investigation mechanism of product origin and we believe this problem will be solved soon and Georgian production will open the road to European mar-

not mean its realization. The volume of production should depend on the market and before production the individual should consider whom the sales are aimed at otherwise there

cult to enter EU markets," Zaldastanishvili declared.

"Step by step Georgian wine is entering the European market, a market which is more civilized, where there is fair competition and the rules are known, which does not change the rules in a day and create difficult conditions for business. Of course, the rules of the game change there too, as regulation also changes, however, information is spread well in advance, so that businesses have time to adapt to the new regulation," Zaldastanishvili added.

EXPORT FIGURES

The external trade turnover of Georgia reached 4,608 million USD as of January-September, 2010, which is 17% more compared to the previous year. From here export was 1,098 million USD (34% more), while import was 3,511 million USD (13% more), creating a trade deficit of 2,413 million USD (5% more).

According to the Georgian National Investment Agency there has been an increase in export structure in several directions such as: the export of cattle by 78%, consisting of 7.3 million USD; fresh fish by 112% compared to last year's indicator and consisting of 3.6 million USD; fish fat has increased by 175% and is 1.1 million USD; citrus export has increased nine times and is 1.8 million USD; and wine, which compared to the previous year's indicator increased by 41% and consists of 13.4 million USD.

External trade turnover with EU countries was 1,205 million USD for January-September 2010, which is 9% more compared to the previous indicator, out of which 205 million is export. The trade turnover with CIS countries was 1,489 million USD (27% more). And total export consisted of 444 million USD.

The share of large-scale trade partners consists of 67% of total external trade turnover. Among the large-scale partners there are Turkey (770 million USD), Azerbaijan (489 million USD), Ukraine (445 million USD), USA (254 million USD), Germany (251 million USD), China (250 million USD), Russia (223 million USD), and Armenia (146 million USD).

"Russia is the most difficult trade partner for us today. There has not been direct trade between Georgia and Russia since the year 2006. However it should be mentioned that traditional trade partner countries like members of the Commonwealth of Independent States (CIS), from Georgia's trade

turnover side compromise their positions towards European Countries," said Moistsraphishvili.

"The increase in trade turnover with European countries is not at the expenses of trade turnover reduction with CIS countries. This means that we are sustaining and developing trade relationships with CIS countries as well as making the foundation for trade relationships with the EU," Moistsraphishvili added.

PREPARING DOCUMENTATION

"In Georgia there is one of the most liberal export regimes. To form export an individual should address custom houses," declared Moistsraphishvili.

While exporting an individual needs certification of origin, which gives the right to use consequent privileges in the country. There are four types of certificate of origin: (1) The certificate of origin of goods without privileges (un-preferential); (2) the certificate of origin of good privileges (preferential) - form "A"; (3) Preferential Certificate of Origin CT-1; (4) Preferential Certificate of Origin EUR.1.

The certificate of origin of good privileges (preferential) - form "A" is given to specially defined goods from Georgian custom houses' territory to defined countries while exporting.

"Defined criterions of the country of origin as well as the rules of giving and filling the certificate are defined by the directives of the preferential giving country," Moistsraphishvili added.

To get a certificate of origin the following documentation is needed: the statement of exporter, declaration about the origin of the goods and ownership, contract (agreement) and invoice.

"While exporting it is vital to have information about the product quality as well as who can make quality certification in Georgia. The majority of governments regulate demand of nutrition products and animal nutrition products on the basis of the World Trade Organization's sanitary and phytosanitary agreement (SPS)," declared Moistsraphishvili.

In international trade there is wide use of quality certificates such as: ISO, OHSAS, and HAC-CP. The ISO catalogue alone includes 18,000 standards, which are classified according to international classification standards. The use of these standards gives the producer, seller, customer the right to request the common quality of the product. If the product is certified with this system then the place of production does not have any importance. The use of common international standards makes the international trade process easier, as the seller and buyer are speaking one international language in correspondence to product quality issues," Moistsraphishvili added.

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kets," Moistsraphishvili added.

According to Zaldastanishvili price in general is always an obstacle while exporting.

"In Georgia a foreign apple costs 5-6 GEL, which is quite a high price, whereas in western countries an apple does not cost so much. If all fruit producers went to the markets themselves, we are referring to small farmers, the product would be more expensive. Somehow our producers should also think of some cooperation so that transportation costs can be reduced as well as administrative expenses," Zaldastanishvili said.

"Moreover, it is quite important to note the quantity. Low price will be achieved through large quantity, consequently

will be huge losses," declared Zaldastanishvili.

"For those who would like to export, it is important to make themselves visible on the internet with a professional and informative company website. Businesses should enter contact, product, company information on online business directories as well as online trade portals. Moreover, companies should have professional commercial proposals in English," declared Jung.

According to Zaldastanishvili, the majority of exported Georgian products in Europe cover Georgian stores and in countries like Germany, and Russian supermarket chains. Moreover, there is a huge market of the

Georgia has a preferential trade regime with the EU, which means Georgia is using a GSP+ supporting scheme - approximately 7,200 Georgian products are not taxed while entering EU markets.

when we speak of competition, our entrepreneurs should note that if it is not the case of large volume the price will be less competitive, if the product is not in the bio segment of course, the prices of which in western countries are quite high and might be even considered a niche market," Zaldastanishvili added.

"Furthermore, one of the obstacles of trade is un-competitiveness. A business can be uncompetitive in its own market as well. Production does

Russian language population as well as people from post-soviet republics, which are aware of Georgian products and retain a form of nostalgia for them.

"Georgian wine is for the medium price segment. In my opinion, an increase in volume of exported wine will be possible if Georgian companies do not recognize each other as competitors at this stage. There should be raised public awareness towards Georgian wine in general otherwise for companies alone it will be quite diffi-